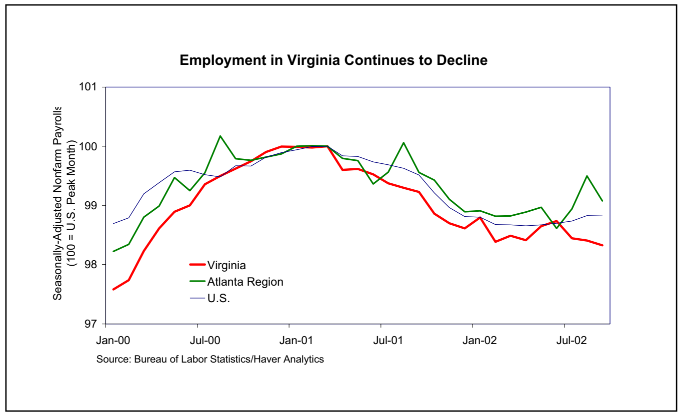
FDIC State Profile

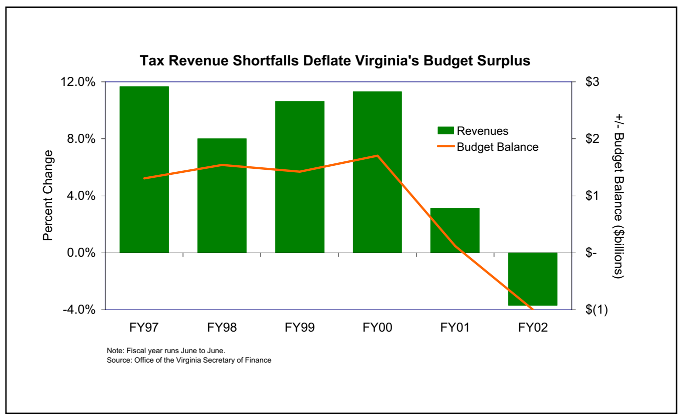
WINTER 2002

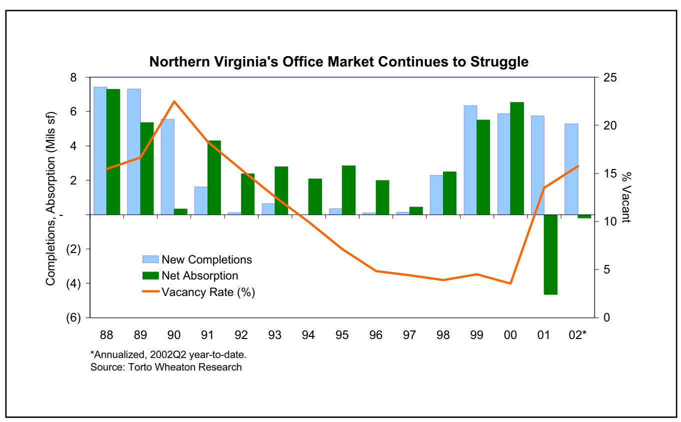
Virginia

Payrolls continue to contract as Virginia struggles to emerge from the recession.

- Payrolls in Virginia, on a year-over-year basis, continued to contract through the first three quarters of 2002 (see Chart 1). Although the rate of job loss has moderated, employment remained 1.7 percent or nearly 60,000 jobs below its cyclical peak in March 2001.
- The transition from economic expansion to recession in Virginia was rapid and sharp. Between 1992 and 2000, Virginia's job growth averaged 2.7 percent annually compared to the August 2002 year-ago decline of 0.8 percent. The change was even more pronounced in some metropolitan areas. In *Northern Virginia*, for example, job growth averaged above 4 percent annually between 1992 and 2000 but down over 1 percent over the past year ending August 2002—A difference of more than 500 basis points.
- Although labor market conditions varied across the state, the highest county unemployment rates continued to be found in south-central areas of the state where key manufacturing industries, such as textiles & apparel and furniture, have been hit hard by the recession. Although this region of the state has traditionally experienced high rates of unemployment, levels have risen by more than one percentage point in several areas over the past year ending second quarter 2002.
- The recent recession has had a substantial impact on Virginia's state finances. In FY-2001, tax revenue *growth* fell by more than half (see Chart 2). This was followed by a nearly 4 percent *decline* in revenue during FY-2002. After years of budget surpluses, the state now faces a deficit of nearly $1 billion. The magnitude of Virginia's budget difficulties was reflected in mid-October 2002 by Governor Warner's announcement of over $850 million in spending cuts, which would include the layoffs of 1,800 state employees.
- The recent recession had an adverse affect on Northern Virginia's commercial real estate markets where office absorption fell substantially in 2001, even as new completions remained at comparatively high levels (see Chart 3). Consequently, office vacancy rates increased sharply. Several submarkets saw vacancy rates climb well into the double-digits in second quarter 2002.







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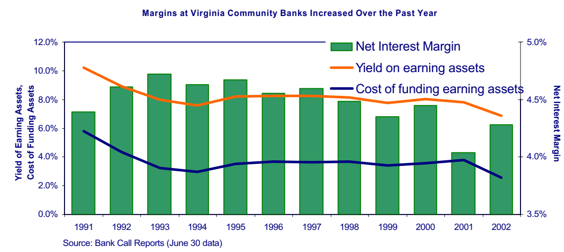
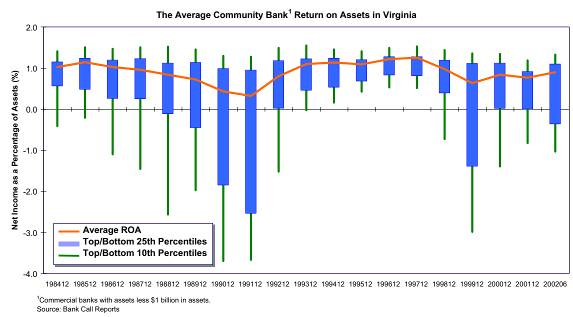
- Banking conditions in the State of Virginia have remained solid throughout the current cycle. On a merger adjusted basis, net income growth returned to pre-recession levels. Net income rose 27 percent during the 12-months ending June 30, 2002 compared to only 7 percent growth in the year earlier period.
- The increase in net income can be attributed to the effects of a steepening of the yield curve following aggressive interest rate cuts by the Federal Reserve to boost economic growth during 2001. Seventy-five banks or 65 percent of the community institutions (define community in footnote) realized an increase in their net interest margins (NIM) at June 30, 2002, which compares favorably to the year earlier period when only 17 percent or 20 banks experienced a positive change in their NIM (see Chart 4) during a “flatter” yield curve environment.
- Profitability measures for community banks improved the first six months of the year compared to 2001 with the average return on assets (ROA) ratio rising to 1.19 percent from 1.07 percent a year ago (See Chart 5). However, the performance of the institutions operating in the bottom 10th percentile weakened slightly. These banks saw their average ROA fall to a negative 1.33 percent at period end, down slightly from a year earlier About fifty percent of the banks in this group are de novos; a group often expected to lose money., A second reason is exposure to commercial and industrial (C&I) loans. At June 20, 2002, these weakly performing banks had 15 percent of their assets in C&I loans and an average charge-off rate of 7 percent for the firrst 6 months of the year.
- Loan growth at Virginia’s community institutions has continued at a relatively brisk pace, averaging roughly 14 percent in the last two periods. However, growth is concentrated in the riskier lending category of commercial real estate (CRE), which may be inconsistent with current economic conditions. CRE now accounts for close to 19 percent of assets, up from 17 percent in the year earlier period.





- Among MSAs with at least five community institutions, the *Norfolk, Roanoke, and Washington, DC-MD-VA-WV* MSAs appear most vulnerable to a renewed downturn. As of second quarter 2002, institutions with concentrations in CRE (25 percent or more of total assets) accounted for at least 35 percent of the banks in these MSAs. Although non-current CRE loan levels were manageable, rising office vacancy rates, similar to those seen in the Northern Virginia market could have a disproportionately negative affect on delinquency levels at community banks in these areas.

Virginia at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	116	131	133	134	136
Total Assets (in thousands)	27,980,473	29,084,691	25,910,773	24,013,381	23,812,108
New Institutions (# < 3 years)	10	20	19	17	7
New Institutions (# < 9 years)	31	31	28	23	15
Capital					
Tier 1 Leverage (median)	8.81	8.87	9.34	9.07	9.39
Asset Quality					
Past-Due and Nonaccrual (median %)	1.39%	1.42%	1.59%	1.78%	2.00%
Past-Due and Nonaccrual ≥ 5%	12	12	5	9	14
ALLL/Total Loans (median %)	1.20%	1.12%	1.14%	1.20%	1.19%
ALLL/Noncurrent Loans (median multiple)	3.54	2.80	2.81	1.99	1.80
Net Loan Losses/Loans (aggregate)	0.19%	0.19%	0.10%	0.17%	0.17%
Earnings					
Unprofitable Institutions (#)	11	9	13	10	3
Percent Unprofitable	9.48%	6.87%	9.77%	7.46%	2.21%
Return on Assets (median %)	1.11	0.99	1.18	1.15	1.25
25th Percentile	0.82	0.62	0.87	0.85	1.01
Net Interest Margin (median %)	4.27%	4.11%	4.44%	4.30%	4.48%
Yield on Earning Assets (median)	6.92%	8.00%	8.09%	7.75%	8.24%
Cost of Funding Earning Assets (median)	2.69%	4.05%	3.73%	3.48%	3.75%
Provisions to Avg. Assets (median)	0.20%	0.17%	0.16%	0.13%	0.13%
Noninterest Income to Avg. Assets (median)	0.60%	0.62%	0.59%	0.56%	0.59%
Overhead to Avg. Assets (median)	2.90%	2.97%	2.97%	2.93%	2.90%
Liquidity/Sensitivity					
Loans to Deposits (median %)	78.02%	78.89%	79.53%	74.24%	72.16%
Loans to Assets (median %)	67.35%	67.25%	67.60%	62.80%	63.94%
Brokered Deposits (# of Institutions)	15	14	10	8	7
Bro. Deps./Assets (median for above inst.)	2.76%	3.20%	4.46%	3.01%	2.69%
Noncore Funding to Assets (median)	14.91%	14.89%	13.97%	11.52%	10.78%
Core Funding to Assets (median)	74.47%	74.98%	75.48%	78.11%	78.28%
Bank Class					
State Nonmember	18	19	19	20	22
National	31	32	28	28	24
State Member	67	80	86	86	90
S&L	0	0	0	0	0
Savings Bank	0	0	0	0	0
Mutually Insured	0	0	0	0	0

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	55	11,797,903	47.41%	42.16%
Washington DC-MD-VA-WV PMSA	20	6,406,291	17.24%	22.90%
Richmond-Petersburg VA	13	2,452,865	11.21%	8.77%
Norfolk-Virginia Bch-Newport News VA-NC	10	2,944,879	8.62%	10.52%
Roanoke VA	5	1,142,260	4.31%	4.08%
Lynchburg VA	4	526,419	3.45%	1.88%
Danville VA	4	1,129,467	3.45%	4.04%
Charlottesville VA	3	460,920	2.59%	1.65%
Johnson City-Kingsport-Bristol TN-VA	2	1,119,469	1.72%	4.00%